



CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

St. Vincent Health, Inc. – Member of Ascension Health  
Years Ended June 30, 2011 and 2010  
With Report of Independent Auditors

Ernst & Young LLP



St. Vincent Health, Inc.

Consolidated Financial Statements  
and Other Financial Information

Years Ended June 30, 2011 and 2010

**Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	2
Consolidated Statements of Operations and Changes in Net Assets .....	4
Consolidated Statements of Cash Flows.....	6
Notes to the Consolidated Financial Statements.....	7
Other Financial Information	
Consolidating Balance Sheet .....	43
Consolidating Statement of Operations and Changes in Net Assets .....	49
Schedule of Net Cost of Providing Care of Persons Living in Poverty and Community Benefit Programs .....	55

## Report of Independent Auditors

The Board of Directors  
St. Vincent Health, Inc.

We have audited the accompanying consolidated balance sheets of St. Vincent Health, Inc. as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of St. Vincent Health, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of St. Vincent Health, Inc.'s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of St. Vincent Health, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Vincent Health, Inc. at June 30, 2011 and 2010, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating balance sheet as of June 30, 2011, consolidating statement of operations and changes in net assets, and schedule of net cost of providing care of persons living in poverty and community benefit programs for the years ended June 30, 2011 and 2010, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*Ernst & Young LLP*

September 13, 2011

St. Vincent Health, Inc.

Consolidated Balance Sheets  
(Dollars in Thousands)

	June 30	
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 119,068	\$ 98,272
Short-term investments	37,093	35,402
Accounts receivable, less allowances for uncollectible accounts (\$78,503 and \$54,282 in 2011 and 2010, respectively)	248,265	211,121
Assets limited as to use	2,200	1,962
Estimated third-party payor settlements	6,022	5,979
Inventories	20,881	22,207
Other	31,393	42,687
Total current assets	464,922	417,630
Investments, including Board-designated	1,748,905	1,466,448
Property and equipment:		
Land and improvements	59,481	59,788
Building and equipment	1,407,510	1,407,262
Construction in progress	14,600	16,868
Less accumulated depreciation	986,472	970,649
Total property and equipment, net	495,119	513,269
Other assets:		
Goodwill and other intangible assets	182,121	98,189
Investment in unconsolidated entities	75,854	75,506
Notes and other receivables	13,154	5,000
Investments in land	4,263	4,263
Other	13,842	8,722
Total other assets	289,234	191,680
Total assets	<u>\$ 2,998,180</u>	<u>\$ 2,589,027</u>

	June 30	
	2011	2010
<b>Liabilities and net assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 2,419	\$ 2,768
Accounts payable and accrued liabilities	239,995	204,613
Estimated third-party payor settlements	28,136	27,412
Self-insurance liabilities	3,217	3,259
Other	14,279	6,032
Total current liabilities	288,046	244,084
Noncurrent liabilities:		
Long-term debt	343,044	336,296
Pension and other postretirement liabilities	78,365	121,334
Other	38,901	35,436
Total noncurrent liabilities	460,310	493,066
Total liabilities	748,356	737,150
Net assets:		
Unrestricted	2,183,135	1,792,823
Temporarily restricted	40,468	31,626
Permanently restricted	16,449	15,955
Total net assets, excluding noncontrolling interest	2,240,052	1,840,404
Noncontrolling interest	9,772	11,473
Total net assets	2,249,824	1,851,877
 Total liabilities and net assets	 <u>\$ 2,998,180</u>	 <u>\$ 2,589,027</u>

*See accompanying notes.*

St. Vincent Health, Inc.

Consolidated Statements of Operations and Changes in Net Assets  
(Dollars in Thousands)

	Year Ended June 30	
	2011	2010
Operating revenue:		
Net patient service revenue	\$ 2,078,088	\$ 1,803,052
Other revenue	87,310	67,814
Income from unconsolidated entities, net, including impairment of \$2,300 in 2010	16,898	12,867
Net assets released from restrictions for operations	3,355	5,405
Total operating revenue	2,185,651	1,889,138
Operating expenses:		
Salaries and wages	817,374	668,928
Employee benefits	227,800	184,356
Purchased services	172,384	164,427
Professional fees	100,550	91,905
Supplies	284,134	268,102
Insurance	8,447	10,201
Bad debts	142,051	79,524
Interest	15,502	11,365
Depreciation and amortization	86,380	84,957
Other	185,278	167,708
Total operating expenses before impairment expense	2,039,900	1,731,473
Income from operations before impairment expense	145,751	157,665
Impairment expense	2,286	—
Income from operations	143,465	157,665
Nonoperating gains (losses):		
Investment return	262,149	169,205
(Loss) income from unconsolidated entities	(191)	1,424
Other	(13,148)	(5,269)
Total nonoperating gains, net	248,810	165,360
Excess of revenues and gains over expenses and losses	392,275	323,025

Continued on next page.

St. Vincent Health, Inc.

Consolidated Statements of Operations and Changes in Net Assets (continued)  
(Dollars in Thousands)

	Year Ended June 30	
	2011	2010
Unrestricted net assets, controlling interest:		
Excess of revenues and gains over expenses and losses	\$ 385,374	\$ 314,200
Pension and other postretirement liability adjustments	68,149	(2,061)
Transfers to sponsor and other affiliates, net	(60,992)	(40,127)
Net assets released from restrictions for property acquisitions	2,734	4,710
Other	(4,953)	978
Increase in unrestricted net assets, controlling interest	390,312	277,700
Unrestricted net assets, noncontrolling interest:		
Excess of revenues and gains over expenses and losses	6,901	8,825
Purchase of units from noncontrolling members	(1,139)	(19,019)
Distributions of capital	(7,463)	(9,959)
Other	—	(148)
Decrease in unrestricted net assets, noncontrolling interest	(1,701)	(20,301)
Temporarily restricted net assets:		
Contributions and grants	11,356	7,952
Net change in unrealized gains/losses on investments	2,699	1,406
Investment return	1,731	1,009
Net assets released from restrictions	(6,089)	(10,115)
Other	(855)	1,090
Increase in temporarily restricted net assets	8,842	1,342
Permanently restricted net assets:		
Contributions	98	523
Net change in unrealized gains/losses on investments	315	24
Investment return	87	111
Other	(6)	(20)
Increase in permanently restricted net assets	494	638
Increase in net assets	397,947	259,379
Net assets, beginning of the year	1,851,877	1,592,498
Net assets, end of the year	\$ 2,249,824	\$ 1,851,877

See accompanying notes.

St. Vincent Health, Inc.

Consolidated Statements of Cash Flows  
(Dollars in Thousands)

	Year Ended June 30	
	2011	2010
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 397,947	\$ 259,379
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	86,380	84,957
Provision for bad debts	142,051	79,524
Deferred pension costs	(68,149)	2,061
Net realized and change in unrealized gains/losses on investments	(265,163)	(170,635)
Loss on sale of assets, net	1,027	21
Impairment expense	2,286	–
Transfers to sponsor and other affiliates, net	60,992	40,127
Restricted contributions, investment return, and other	(12,411)	(10,665)
Income from unconsolidated entities, net	(16,707)	(16,591)
Impairment on unconsolidated entities	–	2,300
Distributions from unconsolidated entities	20,847	18,662
Noncontrolling interest activity	8,602	29,126
(Increase) decrease in:		
Short-term investments	(1,691)	(4,366)
Accounts receivable	(179,195)	(88,342)
Inventories and other current assets	(110)	(17,723)
Investments classified as trading	(17,574)	(142,645)
Other assets	(13,081)	(3,937)
Increase in:		
Accounts payable and accrued liabilities	34,307	30,343
Estimated third-party payor settlements, net	681	3,465
Other current liabilities	16,243	4,248
Other noncurrent liabilities	28,646	8,516
Net cash provided by operating activities	225,928	107,825
<b>Cash flows from investing activities</b>		
Property and equipment and software additions	(65,431)	(29,697)
Proceeds from sale of property and equipment and other assets	318	367
Capital contributions to unconsolidated entities	(4,488)	(43,886)
Purchases of new operating assets	–	(8,119)
Net cash used in investing activities	(69,601)	(81,335)
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	–	47,120
Repayment of long-term debt	(85,312)	(52,599)
Decrease in assets under bond indenture agreements	–	1,197
Purchase of units from noncontrolling members	(1,139)	(4,000)
Distributions to noncontrolling interest partners	(7,463)	(9,959)
Other noncontrolling interest activity	–	(148)
Other financing activities	6,964	–
Transfers to sponsor and other affiliates, net	(60,992)	(40,127)
Restricted contributions, investment return, and other	12,411	10,665
Net cash used in financing activities	(135,531)	(47,851)
Net increase (decrease) in cash and cash equivalents	20,796	(21,361)
Cash and cash equivalents at beginning of year	98,272	119,633
Cash and cash equivalents at end of year	\$ 119,068	\$ 98,272

See accompanying notes.

# St. Vincent Health, Inc.

## Notes to the Consolidated Financial Statements (Dollars in Thousands)

Years Ended June 30, 2011 and 2010

### **1. Organization and Mission**

#### **Organizational Structure**

St. Vincent Health, Inc. (the Corporation) is a member of Ascension Health. Ascension Health is a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 20 of the United States and the District of Columbia. Ascension Health is sponsored by the Northeast, Southeast, East Central, and West Central Provinces of the Daughters of Charity of St. Vincent de Paul, the Congregation of St. Joseph, and the Congregation of the Sisters of St. Joseph of Carondelet.

The Corporation, located in Indianapolis, Indiana, is a nonprofit acute care hospital system. The Corporation's hospitals provide inpatient, outpatient, and emergency care services for the residents of central Indiana. Admitting physicians are primarily practitioners in the local area. The Corporation is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

The Corporation is continuing to enhance its development as an integrated health care delivery system through relationships and affiliations with other providers, practitioners, and insurers throughout the states of Indiana and Ohio. In this connection, the Corporation has formed separate affiliation arrangements with Cardinal Health System, Inc. (Delaware County) and Columbus Regional Hospital, Inc. (Bartholomew County) to develop joint services in the communities they commonly serve. In addition, the Corporation entered into an agreement with Cincinnati Children's Medical Center to enhance the pediatric subspecialty services to Peyton Manning Children's Hospital at St. Vincent. The Corporation has also entered into an agreement with the Cleveland Clinic to manage the renal transplant program at the St. Vincent Indianapolis Hospital. None of these affiliations have resulted in significant asset transfers and have not resulted in consolidation of the related entities.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Mission (continued)

The Corporation includes the following not-for-profit hospitals and health care entities:

##### **Acute Care Hospitals:**

*St. Vincent Hospital and Health Care Center, Inc., d/b/a St. Vincent Hospital and Health Services* (SVHHS) includes the following hospitals in Indianapolis, Indiana:

*St. Vincent Indianapolis Hospital*  
*St. Vincent Women's Hospital*  
*St. Vincent Stress Center*  
*St. Vincent Medical Center Northeast*  
*Peyton Manning Children's Hospital at St. Vincent*

- *St. Vincent Carmel Hospital, Inc. (St. Vincent Carmel)*, Carmel, Indiana.
- *St. Joseph Hospital & Health Center, Inc. (St. Joseph-Kokomo)*, Kokomo, Indiana.
- *Saint John's Health System (Saint John's)*, Anderson, Indiana.
- *St. Vincent Seton Specialty Hospital, Inc. (Seton)*: Seton is a long-term acute care hospital with locations in Indianapolis and Lafayette, Indiana.
- *St. Vincent New Hope, Inc. (New Hope)*: New Hope is a residential treatment facility primarily providing residential and rehabilitation services for adults with a variety of developmental disabilities and is located in Indianapolis, Indiana.

The following acute care facilities are designated by Medicare as critical access hospitals:

- *St. Vincent Williamsport Hospital, Inc. (Williamsport)*: Williamsport is an acute care hospital located in Williamsport, Indiana.
- *St. Vincent Jennings Hospital, Inc. (Jennings)*: Jennings is an acute care hospital located in North Vernon, Indiana.
- *St. Vincent Frankfort Hospital, Inc. (Frankfort)*: Frankfort is an acute care hospital located in Frankfort, Indiana.
- *St. Vincent Randolph Hospital, Inc. (Randolph)*: Randolph is an acute care hospital located in Winchester, Indiana.
- *St. Vincent Clay Hospital, Inc. (Clay)*: Clay is an acute care hospital located in Brazil, Indiana.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Mission (continued)

- *St. Vincent Mercy Hospital (Mercy)*: Mercy is an acute care hospital located in Elwood, Indiana.
- *St. Vincent Salem Hospital, Inc. (Salem)*: Salem is an acute care hospital located in Salem, Indiana.
- *St. Vincent Dunn Hospital, Inc. (Dunn)*: Dunn is an acute care hospital located in Bedford, Indiana.

#### **Other Health Care Entities:**

- *St. Vincent Hospital Foundation, Inc., Saint John's Foundation, Inc., St. Joseph Foundation of Kokomo, Indiana, Inc., St. Vincent Frankfort Hospital Foundation, Inc., St. Vincent Randolph Hospital Foundation, Inc., St. Vincent Williamsport Hospital Foundation, Inc., St. Vincent Jennings Hospital Foundation, Inc., St. Vincent Clay Hospital Foundation, Inc., and St. Vincent Mercy Hospital Foundation, Inc. (the Foundations)*: The Foundations provide fund-raising efforts to support the charitable, religious, scientific, and educational purposes of charitable works of SVHHS, Saint John's, St. Joseph-Kokomo, Frankfort, Randolph, Williamsport, Jennings, Clay, Mercy, and other health facilities in accordance with the mission and values of Ascension Health.
- *Central Indiana Health System Cardiac Services, Inc. (CIHSCS)*: CIHSCS is a 49% joint venture partner in Lafayette Heart Program Holdings, LLC, a cardiac program in Lafayette, Indiana. CIHSCS also owns 74.1% of St. Vincent Heart Center of Indiana, LLC (SVHCI).
- *St. Vincent Health, Inc. (SVH)*: SVH provides the corporate support functions for the Corporation.
- *St. Vincent Physician Network, LLC (SPN)*: SPN is the Corporation's primary and specialty care network of physicians.
- *St. Vincent Medical Center Northeast, Inc. (SVMCNE)*: SVMCNE is a real estate holding company that is holding land for future expansion of health care services.
- *St. Vincent Medical Group, Inc. (SVMG)*: SVMG is the Corporation's multi-specialty physician network consisting primarily of cardiology physicians. SVMG became part of the Corporation effective July 1, 2010.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Mission (continued)

- *Quality Healthcare Solutions, LLC DBA Navion Healthcare Solutions (Navion)*: Navion aims to optimize patient care with its physicians and hospital partners by advancing quality, improving operational performance, and reducing costs through data-driven solutions. Navion's services include data management and abstraction, performance improvement, service line management, and consulting.

#### Acquisitions

Effective July 1, 2010, the Corporation acquired certain assets owned by The Care Group, LLC (TCG), Northside Cardiac Cath Lab Partnership (Northside), The Care Labs, LLC (TCL), Care Group Cardiovascular Management, LLC (CGC), and Indiana Heart Institute, LLC (IHI). Ultimate owners from these entities included physicians and non-physicians affiliated with multiple physician practices. Such acquired assets were used in the operation of a medical practice, several cardiac and vascular catheterization laboratories, a management services company, and a data collections company. In addition, CIHSCS acquired approximately four additional units of ownership interest in SVHCI, bringing its total ownership interest to approximately 74%. The companies were acquired as part of the Corporation's strategy to continue to enhance its services and mission by aligning with physician practices. The Corporation allocated the total purchase price of \$96,711 to assets acquired and liabilities assumed based upon estimated fair value on the acquisition date, in accordance with generally accepted accounting principles.

Consistent with the Corporation's policy and historical practice, the Corporation utilized independent third-party appraisers and advisors in estimating the fair market value of acquired assets and liabilities assumed, as well as the commercial reasonableness of the transactions. The transactions were financed primarily through a promissory note.

Effective February 1, 2010, Salem entered into an agreement to lease certain assets of Washington County Memorial Hospital (WCMH) from Critical Access Health Services Corp., which was an entity formed to own and operate WCMH while the hospital was in bankruptcy. Assets leased include the WCMH building and land, nearby medical office buildings, and the majority of the property and equipment.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Mission (continued)

The lease calls for Salem to pay \$500 per year for five years. The lease agreement includes an option to purchase the hospital at the end of the five-year term for an additional \$1,000. The lease agreement also includes an option to extend the lease for two terms of five years each, if Salem does not purchase the hospital at the end of the lease term.

Effective June 30, 2010, Dunn acquired certain assets, including property and equipment, inventory, and prepaid assets, and assumed certain liabilities of Dunn Memorial Hospital, Inc. for a purchase price of \$8,119.

CIHSCS exercised an Option Agreement to purchase an additional five units of SVHCI on December 31, 2009, for a purchase price of \$19,019. The purchase price included a down payment of \$4,000 with the remaining purchase price to be paid in two equal annual installments in July 2011 and July 2012, which are included in other current liabilities and other noncurrent liabilities in the accompanying consolidated balance sheets. Pursuant to the Option Agreement, interest will accrue on all unpaid amounts at a rate equal to 4.25% with no penalty for early payment.

#### Mission

Ascension Health directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with Ascension Health's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. Ascension Health uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

- Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Organization and Mission (continued)

- Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.
- Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.
- Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and community benefit programs. The cost of providing care of persons living in poverty and community benefit programs is estimated using internal cost data and is calculated in compliance with guidelines established by both the Catholic Health Association (CHA) and the Internal Revenue Service (IRS).

The amount of traditional charity care provided, determined on the basis of cost, excluding the provision for bad debt expense, was approximately \$52,740 and \$50,719 for the years ended June 30, 2011 and 2010, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying other financial information.

# St. Vincent Health, Inc.

## Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Significant Accounting Policies

#### Principles of Consolidation

All corporations and other entities for which operating control is exercised by the Corporation or one of its member corporations are consolidated, and all significant inter-entity transactions have been eliminated in consolidation. Investments in entities where the Corporation does not have operating control are recorded under the equity or cost method of accounting. Under the equity method of accounting, the Corporation recognizes a proportional interest in the earnings of its unconsolidated investments in relation to its ownership percentage. These investments are reviewed for impairment when indicators of impairment are present. For entities recorded under the equity method of accounting, the following reflects the Corporation's interest in unconsolidated entities in the consolidated balance sheets, as well as income or loss for such entities included in the consolidated excess of revenues and gains over expenses and losses in the consolidated statements of operations and changes in net assets:

	Investment Recorded in Consolidated Balance Sheets as of June 30		Effect on Consolidated Excess of Revenues and Gains Over Expenses and Losses for the Year Ended June 30	
	2011	2010	2011	2010
Mid America Clinical Laboratories, LLC	\$ 5,366	\$ 4,637	\$ 2,924	\$ 1,972
Naab Road Surgery Center, LLC	1,549	1,230	2,787	3,353
The Surgery Center of Indianapolis, LLC	1,067	1,533	1,955	2,610
Advantage Health Solutions, Inc.	8,380	8,157	223	1,485
Carmel Ambulatory Surgery Center, LLC	2,073	2,044	4,898	5,757
Lafayette Heart Program Holdings, LLC	7,800	7,800	—	(1,700)
Indiana Orthopaedic Hospital, LLC	40,394	40,399	6,221	2,450
Rehabilitation Hospital of Indiana, Inc.	212	212	—	(858)
Other	9,013	9,494	(2,301)	(778)
	<u>\$ 75,854</u>	<u>\$ 75,506</u>	<u>\$ 16,707</u>	<u>\$ 14,291</u>

The Corporation purchased an equity interest in Indiana Orthopaedic Hospital, LLC effective October 23, 2009, for a purchase price of \$40,000. The transaction resulted in approximately \$37,788 of goodwill. As of July 1, 2010, the remaining goodwill balance of \$36,109 is no longer amortized and is maintained within the investment in unconsolidated entities in the accompanying consolidated balance sheets.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

The loss on Rehabilitation Hospital of Indiana, Inc. includes an impairment charge of \$600, which is included in income from unconsolidated entities in the consolidated statement of operations and changes in net assets for the year ended June 30, 2010. The joint venture has experienced cash flow issues, and the investment has been written down to fair value using Level 3 inputs (see Note 4), which approximates the value of the remaining debt guarantee.

The loss on Lafayette Heart Program Holdings, LLC includes an impairment charge of \$1,700 in 2010, which is included in income from unconsolidated entities in the consolidated statements of operations and changes in net assets. The joint venture has not distributed any cash dividends since inception. The current market value of the investment was estimated based upon valuing the put and call option in the joint venture agreement using an income valuation approach using the discounted net cash flow method with a five-year projection period, with an adjustment for minority discount and discount for lack of marketability using Level 3 inputs (see Fair Value Measurements note).

#### **Use of Estimates**

Management has made estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenses. Actual results could differ from those estimates.

#### **Fair Value of Financial Instruments**

The carrying value of financial instruments classified as current assets and current liabilities approximates fair value. The fair values of financial instruments classified as other than current assets and current liabilities are disclosed in the Fair Value Measurements, Long-Term Debt, Pension Plans, and Related-Party Transactions notes.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and interest-bearing deposits with maturities of three months or less and certain highly liquid, interest-bearing securities with maturities that may extend longer than three months but are convertible to cash within a one-month time period under the terms of the agreement with the investment manager.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Investments and Investment Return**

The Corporation holds investments through the Health System Depository (HSD), an investment pool of funds in which a limited number of nonprofit health care providers participate for purposes of establishing investment goals and monitoring performance under agreed-upon socially responsible investment guidelines. Investments are managed primarily by external investment managers within established investment guidelines. The value of the Corporation's investment in the HSD represents the Corporation's pro rata share of the HSD's investments held for participants. At June 30, 2011 and 2010, the Corporation's investment in the HSD was \$1,737,672 and \$1,472,547, respectively.

The Corporation also invests in cash and short-term investments, U.S. government obligations, corporate obligations, marketable equity securities, international securities, and real estate investments which are locally managed. Most of these funds are held in locally managed foundations where the Corporation has control over foundation assets. The Corporation reports both its investment in the HSD and in locally managed investments in the accompanying consolidated balance sheets based upon the long- or short-term nature of its investment and whether such investments are restricted by law or donors or designated for specific purposes by a governing body of Ascension Health.

The HSD's assets required to be recorded at fair value are comprised of equity and various fixed income investments. The HSD also holds investments in hedge funds, private equity, and real estate funds which are recorded under the equity method of accounting. In addition, the HSD participates in securities lending transactions whereby a portion of its investments is loaned to selected established brokerage firms in return for cash and securities from the brokers as collateral for the investments loaned.

Investment returns are comprised of dividends, interest, and gains and losses. The cost of substantially all securities sold is based on the average cost method. All of the Corporation's investments, including its investment in the HSD, are designated as trading investments. Accordingly, all investment returns, including unrealized gains and losses, are reported as nonoperating gains (losses) in the consolidated statements of operations and changes in net assets unless the return is restricted by donor or law.

# St. Vincent Health, Inc.

## Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

### 2. Significant Accounting Policies (continued)

#### Inventories

Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower of cost or market value utilizing first-in, first-out (FIFO), or a methodology that closely approximates FIFO.

#### Intangible Assets

Intangible assets primarily consist of goodwill (increase due to acquisitions disclosed in Note 1) and capitalized computer software costs, including software internally developed. Costs incurred in the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or post-implementation stage. Intangible assets are included in other noncurrent assets in the accompanying consolidated balance sheets and are comprised of the following:

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Goodwill	\$ 101,694	\$ 46,756
Capitalized computer software costs	110,516	85,907
Accumulated amortization computer software costs	(50,977)	(36,567)
Other finite life intangibles	24,021	2,283
Accumulated amortization of other finite life intangibles	(3,133)	(190)
Total intangible assets	<u>\$ 182,121</u>	<u>\$ 98,189</u>

Effective July 1, 2010, intangible assets whose lives are indefinite, primarily goodwill, are not amortized and are evaluated for impairment at least annually, while intangible assets with definite lives, primarily capitalized computer software costs and other intangibles, are amortized over their expected useful lives. Prior to June 30, 2010, goodwill was amortized over an estimated life of 15 years.

Computer software costs are amortized over a range of 5 to 7 years. Other finite life intangibles include lease acquisition costs and assumed contracts (due to acquisitions disclosed in Note 1) and are amortized over a range of 5 to 11 years. Total amortization expense for 2011 and 2010 was \$17,353 and \$17,578, respectively.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Significant Accounting Policies (continued)

##### Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value at the date of the gift. Depreciation is determined on a straight-line basis over the estimated useful lives of the related assets. Depreciation expense in 2011 and 2010 was \$69,027 and \$67,379, respectively.

Estimated useful lives by asset category are as follows: land improvements – 10 to 15 years; buildings – 20 to 40 years; and equipment – 3 to 10 years. Interest costs incurred as part of related construction are capitalized during the period of construction. There was no interest capitalized in 2011 or 2010.

Several capital projects have remaining construction and related equipment purchase commitments of approximately \$4,795 as of June 30, 2011.

The Corporation recognizes the fair value of asset retirement obligations, including conditional asset retirement obligations, if the fair value can be reasonably estimated in the period in which the liability is incurred. Asset retirement obligations include but are not limited to certain types of environmental issues which are legally required to be remediated upon an asset's retirement, as well as contractually required asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. Subsequent to initial recognition, accretion expense is recognized until the asset retirement liability is estimated to be settled.

The Corporation's most significant asset retirement obligation relates to asbestos remediation in certain hospital buildings. Asset retirement obligations of \$8,598 and \$8,163 as of June 30, 2011 and 2010, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. During 2011 and 2010, \$0 and \$11 of retirement obligations were incurred and settled, respectively. Accretion expense of \$435 and \$414 was recorded in 2011 and 2010, respectively.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity, which include endowment funds. Temporarily restricted net assets and earnings on permanently restricted net assets, including earnings on endowment funds, are used in accordance with the donor's wishes primarily to purchase equipment and to provide charity care and other health and educational services. Contributions with donor-imposed restrictions that are met in the same reporting period are reported as unrestricted.

##### **Performance Indicator**

The performance indicator is excess of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator primarily include pension and other postretirement liability adjustments, transfers to or from sponsors and other affiliates, net assets released from restrictions for property acquisitions, contributions of property and equipment, and other transfers between funds.

##### **Operating and Nonoperating Activities**

The Corporation's primary mission is to meet the health care needs in its market area through a broad range of general and specialized health care services, including inpatient acute care, outpatient services, long-term care, and other health care services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses peripheral to the Corporation's primary mission are considered to be nonoperating, consisting primarily of investment return and income (loss) from certain unconsolidated joint ventures, offset by grants.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 2. Significant Accounting Policies (continued)

##### **Net Patient Service Revenue, Accounts Receivable, and Allowance for Uncollectible Accounts**

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services provided, excluding the provision for bad debt expense, and includes estimated retroactive adjustments under reimbursement agreements with third-party payors. Revenue under certain third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Adjustments to revenue related to prior periods increased net patient service revenue by approximately \$20,664 and \$6,375 for the years ended June 30, 2011 and 2010, respectively.

During 2011 and 2010, approximately 29% and 28%, respectively, of net patient service revenue was received under the Medicare program and 7% each year under various state Medicaid programs. The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Significant concentrations of accounts receivable at June 30, 2011, include Medicare (17%), Medicaid (9%), Blue Cross (19%), managed care and commercial (36%), and self-pay (19%). Significant concentrations of accounts receivable at June 30, 2010, include Medicare (17%), Medicaid (8%), Blue Cross (18%), managed care and commercial (43%), and self-pay (14%).

The provision for bad debt expense is based upon management's assessment of expected net collections considering economic conditions, historical experience, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debt expense to establish an appropriate allowance for uncollectible accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Corporation follows established guidelines for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by Ascension Health. Accounts receivable are written off after collection efforts have been followed in accordance with the Corporation's policies.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

The Corporation has an agreement to transfer certain patient receivables with recourse to a third party in exchange for cash at a discounted rate. The Corporation is deemed to have retained the risk of ownership of the receivables, which serve as collateral for the cash advanced to the Corporation, and the Corporation continues to reflect the receivables and related liability to the third party on its consolidated balance sheets. As of June 30, 2011 and 2010, receivables subject to this arrangement were \$18,245 and \$24,232, respectively, and are included in other current assets. The Corporation estimates its recourse obligation, which is reflected in accounts payable and other accrued liabilities.

#### **Impairment, Restructuring, and Nonrecurring Expenses**

During the year ended June 30, 2011, the Corporation recorded total impairment, restructuring, and nonrecurring expenses of \$2,286. This amount was comprised of long-lived asset impairments to reflect current fair value related to the termination of an information technology service contract.

#### **Adoption of New Accounting Standards**

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* (ASU 2010-07), which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to the FASB's Accounting Standards Codification™ (the Codification or ASC) Topic 350, *Intangibles – Goodwill and Other* (ASC Topic 350), and Topic 810, *Consolidation* (ASC Topic 810), to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. ASC Topic 810 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of net assets. The Corporation adopted the guidance relative to ASU 2010-07 as of July 1, 2010.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **2. Significant Accounting Policies (continued)**

##### **Income Taxes**

The member health care entities of the Corporation, an Indiana not-for-profit corporation, are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) or 501(c)(2), and their related income is exempt from federal income tax under Section 501(a). The Corporation accounts for uncertainty in income tax positions by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

SVHCI members have elected, under the applicable provisions of the Internal Revenue Code, to be taxed as a partnership whereby taxable income is taxed directly to the members and not to SVHCI. The allocable share of earnings from SVHCI is also exempt from income tax because it is related to the Corporation's tax-exempt purpose. Accordingly, the consolidated financial statements do not include any provision for federal or state income taxes.

##### **Regulatory Compliance**

Various federal and state agencies have initiated investigations regarding reimbursement claimed by the Corporation. The investigations are in various stages of discovery, and the ultimate resolution of these matters, including the liabilities, if any, cannot be readily determined; however, in the opinion of management, the results of these investigations will not have a material adverse impact on the consolidated financial statements of the Corporation.

##### **Reclassifications**

Certain reclassifications were made to the 2010 consolidated financial statements to conform to the 2011 presentation, including capitalized computer software costs.

##### **Subsequent Events**

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition or disclosure in the financial statements as of the balance sheet date. For the year ended June 30, 2011, the Corporation evaluated subsequent events through September 13, 2011, representing the date on which the accompanying audited consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Additionally, there were no nonrecognized subsequent events that required disclosure other than those disclosed in the Subsequent Events note.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Cash Equivalents, Investments, and Assets Limited as to Use**

The Corporation's investments are comprised of the Corporation's pro rata share of the HSD's funds held for participants and certain other investments such as those investments held and managed by foundations. Board-designated investments represent investments designated by resolution of the Board of Trustees to put amounts aside primarily for future capital expansion and improvements. In June 2011, the Board of Trustees released the board designation on a majority of the funded depreciation accounts. Assets limited as to use primarily include investments restricted by donors. The Corporation's investments are reported in the accompanying consolidated balance sheets as presented in the following table:

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 119,068	\$ 98,272
Short-term investments	37,093	35,402
Current portion of assets limited as to use	2,200	1,962
Board-designated investments	15,112	1,397,006
Other investments	1,679,076	23,823
Assets limited as to use:		
Temporarily or permanently restricted	54,717	45,619
Total	<u>\$ 1,907,266</u>	<u>\$ 1,602,084</u>

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Cash Equivalents, Investments, and Assets Limited as to Use (continued)**

The composition of cash and investments classified as cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments is summarized as follows:

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 61,687	\$ 41,102
Short-term investments	37,093	35,402
U.S. government obligations	4,149	1,853
Corporate and foreign fixed income investments	8,889	10,534
Asset backed securities	3,358	2,930
Equity securities	37,976	27,881
International securities	11,591	5,891
Private equity and other investments	1,351	1,299
Other assets limited as to use	3,500	2,645
Subtotal, included in cash and cash equivalents, short-term investments, and Board-designated and other investments	169,594	129,537
Pro rata share of HSD funds held for participants	1,737,672	1,472,547
Cash and cash equivalents, short-term investments, and Board-designated and other investments	<u>\$ 1,907,266</u>	<u>\$ 1,602,084</u>

As of June 30, 2011 and 2010, the composition of total HSD investments is as follows:

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Cash, cash equivalents, and short-term investments	6.9%	5.8%
U.S. government obligations	27.4	26.0
Asset backed securities	15.8	11.3
Corporate and foreign fixed income investments	11.3	17.5
Equity, private equity, and other investments	38.6	39.4
	<u>100.0%</u>	<u>100.0%</u>

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**3. Cash and Cash Equivalents, Investments, and Assets Limited as to Use (continued)**

Investment return recognized by the Corporation is summarized as follows:

	<b>Year Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Investment return in HSD	\$ 250,281	\$ 164,461
Interest and dividends	2,090	2,035
Net gains on investments reported at fair value	12,792	4,139
Restricted investment income	1,818	1,120
Total investment return	<u>\$ 266,981</u>	<u>\$ 171,755</u>
Investment return included in nonoperating gains	\$ 262,149	\$ 169,205
Increase in restricted net assets	4,832	2,550
Total investment return	<u>\$ 266,981</u>	<u>\$ 171,755</u>

**4. Fair Value Measurements**

The Corporation categorizes, for disclosure purposes, assets and liabilities measured at fair value in the consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs which are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the asset or liability. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**4. Fair Value Measurements (continued)**

The Corporation follows the three-level fair value hierarchy to categorize these assets and liabilities recognized at fair value at each reporting period, which prioritizes the inputs used to measure such fair values. Level inputs are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date. Investments classified in this level generally include exchange traded equity securities, futures, real estate investment trusts, pooled short-term investment funds, options, and exchange traded mutual funds.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Investments classified in this level generally include fixed income securities, including fixed income government obligations, asset backed securities, certificates of deposit, and derivatives.

Level 3 – Inputs that are unobservable for the asset or liability. Investments classified in this level generally include alternative investments, private equity investments, limited partnerships, and certain fixed income securities, including fixed income government obligations, and derivatives.

Assets and liabilities classified as Level 1 are valued using unadjusted quoted market prices for identical assets or liabilities in active markets. The Corporation uses techniques consistent with the market approach and income approach for measuring fair value of its Level 2 and Level 3 assets and liabilities. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The income approach generally converts future amounts (cash flows or earnings) to a single present value amount (discounted).

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**4. Fair Value Measurements (continued)**

As of June 30, 2011 and 2010, the Level 2 and Level 3 assets and liabilities listed in the fair value hierarchy tables on the following pages utilize the following valuation techniques and inputs:

*Cash and Cash Equivalents and Short-Term Investments*

Short-term investments designated as Level 2 investments are primarily comprised of commercial paper, whose fair value is based on amortized cost. Significant observable inputs include security cost, maturity, and credit rating. Cash and cash equivalents and additional short-term investments are primarily comprised of certificates of deposit, whose fair value is based on cost plus accrued interest. Significant observable inputs include security cost, maturity, and relevant short-term interest rates.

*U.S. Government Obligations*

The fair value of investments in U.S. government, state, and municipal obligations is primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

*Corporate and Foreign Fixed Income Investments*

The fair value of investments in U.S. and international corporate bonds, including commingled funds that invest primarily in such bonds, and foreign government bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security-specific characteristics, such as early redemption options.

*Asset Backed Securities*

The fair value of U.S. agency and corporate asset backed securities is primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 4. Fair Value Measurements (continued)

##### *Equity Securities*

The fair value of investments in U.S. and international equity securities is primarily determined using the calculated net asset value. The values for underlying investments are fair value estimates determined by external fund managers based on operating results, balance sheet stability, growth, and other business and market sector fundamentals.

##### *Private Equity Investments*

The fair value of private equity investments is primarily determined using techniques consistent with both the market and income approaches, based on the Corporation's estimates and assumptions in absence of observable market data. The market approach considers comparable company, comparable transaction, and company-specific information, including but not limited to restrictions on disposition, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, and current financial position and operating results. The income approach considers the projected operating performance of the portfolio company.

##### *Guaranteed Pooled Fund*

The fair value of guaranteed pooled fund investments is based on cost plus guaranteed, annuity contract-based interest rates. Significant unobservable inputs to the guaranteed rate include the fair value and average duration of the portfolio of investments underlying the annuity contract, the contract value, and the annualized weighted-average yield to maturity of the underlying investment portfolio.

As discussed in the Significant Accounting Policies and the Cash and Cash Equivalents, Investments, and Assets Limited as to Use note, the Corporation has an investment in the HSD and certain other investments, such as those investments held and managed by foundations. As of June 30, 2011, 31%, 67%, and 2% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 1%, 84%, and 15% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2, and Level 3 inputs, respectively. As of June 30, 2010, 25%, 67%, and 8% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively, while 2%, 45%, and 53% of total HSD liabilities that are measured at fair value on a recurring basis were measured based on Level 1, Level 2, and Level 3 inputs, respectively.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**4. Fair Value Measurements (continued)**

The following table summarizes fair value measurements, by level, at June 30, 2011, for all other financial assets and liabilities which are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
<b>June 30, 2011</b>				
Cash and cash equivalents	\$ 4,891	\$ 322	\$ —	\$ 5,213
Short-term investments	11,329	25,764	—	37,093
U.S. government obligations	—	4,149	—	4,149
Corporate and foreign fixed income investments	—	8,889	—	8,889
Asset backed securities	—	3,358	—	3,358
Equity, private equity, and other investments	35,076	2,900	—	37,976
International securities	11,591	—	—	11,591
Subtotal of assets at fair value	\$ 62,887	\$ 45,382	\$ —	108,269
<b>Assets not at fair value</b>				<u>61,325</u>
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments				<u>\$ 169,594</u>
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	\$ 7,599	\$ —	\$ —	\$ 7,599
Guaranteed pooled fund	\$ —	\$ —	\$ 1,161	\$ 1,161

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**4. Fair Value Measurements (continued)**

The following table summarizes fair value measurements, by level, at June 30, 2010, for all other financial assets and liabilities that are measured at fair value on a recurring basis in the Corporation's consolidated financial statements:

	Level 1	Level 2	Level 3	Total
<b>June 30, 2010</b>				
Cash and cash equivalents	\$ 4,343	\$ —	\$ —	\$ 4,343
Short-term investments	17,546	17,856	—	35,402
U.S. government obligations	—	1,853	—	1,853
Corporate and foreign fixed income investments	—	10,534	—	10,534
Asset backed securities	—	2,930	—	2,930
Equity, private equity, and other investments	25,756	2,125	—	27,881
International securities	5,891	—	—	5,891
Subtotal of assets at fair value	\$ 53,536	\$ 35,298	\$ —	88,834
<b>Assets not at fair value</b>				40,703
Subtotal, included in cash and cash equivalents, short-term investments, Board-designated investments, assets limited as to use, and other investments				<u>\$ 129,537</u>
Deferred compensation assets, included in other noncurrent assets, invested in:				
Equity securities	\$ 4,912	\$ —	\$ —	\$ 4,912
Guaranteed pooled fund	\$ —	\$ —	\$ 963	\$ 963

During the years ended June 30, 2011 and 2010, the changes in the fair value of the foregoing assets measured using significant unobservable inputs (Level 3) were comprised of the following. Transfers in or out of Level 3 are recognized as of the beginning of the reporting period. The balance at July 1, 2009, was \$783; purchases, issuances, and settlements were \$112; and transfers into Level 3 were \$68. The balance at July 1, 2010, was \$963; purchases, issuances, and settlements were \$149; and transfers into Level 3 were \$49, resulting in an ending balance at June 30, 2011, of \$1,161.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**5. Long-Term Debt**

Long-term debt consists of the following:

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Intercompany debt with Ascension Health, payable in installments through November 2047; interest (3.88% and 3.95% at June 30, 2011 and 2010, respectively) adjusted based on the prevailing blended market interest rate of underlying debt obligations	<b>\$ 336,296</b>	<b>\$ 339,031</b>
Notes payable with The Care Group, LLC and other related entities, payable July 2, 2012, including interest of 4.25%	<b>9,167</b>	<b>—</b>
Obligations under capital leases	<b>—</b>	<b>33</b>
	<b>345,463</b>	<b>339,064</b>
Less current portion	<b>2,419</b>	<b>2,768</b>
Long-term debt, less current portion	<b>\$ 343,044</b>	<b>\$ 336,296</b>

Scheduled principal repayments of long-term debt are as follows:

Year ending June 30:	
2012	\$ 2,419
2013	11,503
2014	5,064
2015	5,294
2016	4,716
Thereafter	316,467
Total	<b>\$ 345,463</b>

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **5. Long-Term Debt (continued)**

Certain members of Ascension Health formed the Ascension Health Credit Group (Senior Credit Group). Each Senior Credit Group member is identified as either a senior obligated group member or senior limited designated affiliate. Senior obligated group members are jointly and severally liable under a Senior Master Trust Indenture (Senior MTI) to make all payments required with respect to obligations under the Senior MTI and may be entities not controlled directly or indirectly by Ascension Health. Though senior limited designated affiliates are not obligated to make debt service payments on the obligations under the Senior MTI, each senior limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the senior limited designated affiliate's state of incorporation. In addition, Ascension Health may cause each senior designated affiliate to transfer such amounts as are necessary to enable the senior obligated group members to comply with the terms of the Senior MTI, including payment of the outstanding obligations. The Corporation is a senior obligated group member under the terms of the Senior MTI.

Pursuant to a Supplemental Master Indenture dated February 1, 2005, senior obligated group members, which are operating entities, have pledged and assigned to the Master Trustee a security interest in all of their rights, title, and interest in their pledged revenues and proceeds thereof.

A Subordinate Credit Group, which is comprised of subordinate obligated group members and subordinate limited designated affiliates, was created under the Subordinate Master Trust Indenture (the Subordinate MTI). The subordinate obligated group members are jointly and severally liable under the Subordinate MTI to make all payments required with respect to obligations under the Subordinate MTI and may be entities not controlled directly or indirectly by Ascension Health. Though subordinate limited designated affiliates are not obligated to make debt service payments on the obligations under the Subordinate MTI, each subordinate limited designated affiliate has an independent limited designated affiliate agreement and promissory note with Ascension Health with stipulated repayment terms and conditions, each subject to the governing law of the limited designated affiliate's state of incorporation. The Corporation is a subordinate obligated group member under the terms of the Subordinate MTI.

The borrowing portfolio of the Senior and Subordinate Credit Group includes a combination of fixed and variable rate hospital revenue bonds, commercial paper, and other obligations, the proceeds of which are in turn loaned to the Senior and Subordinate Credit Group members, subject to a long-term amortization schedule of 1 to 37 years.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 5. Long-Term Debt (continued)

Certain portions of Senior and Subordinate Credit Group borrowings may be periodically subject to interest rate swap arrangements to effectively convert borrowing rates on such obligations from a floating to a fixed interest rate or vice versa based on market conditions. Additionally, Senior and Subordinate Credit Group borrowings may, from time to time, be refinanced or restructured in order to take advantage of favorable market interest rates or other financial opportunities. Any gain or loss on refinancing, as well as any bond premiums or discounts, are allocated to the Senior and Subordinate Credit Group members based on their pro rata share of the Senior and Subordinate Credit Group obligations. Senior and Subordinate Credit Group refinancing transactions rarely have a significant impact on the outstanding borrowings or intercompany debt amortization schedule of any individual Senior and Subordinate Credit Group member. Members of Ascension Health may also periodically draw from the invested funds of other members of Ascension Health on a relatively short-term basis and subject to certain conditions.

The carrying amounts of intercompany debt with Ascension Health and other debt approximate fair value based on a portfolio market valuation provided by a third party.

The Senior and Subordinate Credit Group financing documents contain certain restrictive covenants, including a debt service coverage ratio.

As of June 30, 2011, the Senior Credit Group has a line of credit of \$250,000 related to its commercial paper program toward which bank commitments totaling \$250,000 extend to November 18, 2013. As of June 30, 2011 and 2010, there were no borrowings under the line of credit.

As of June 30, 2011, the Senior Credit Group has a line of credit of \$500,000 for general corporate purposes toward which bank commitments totaling \$500,000 extend to April 2, 2012. As of June 30, 2011, there were no borrowings under the line of credit.

As of June 30, 2011, the Subordinate Credit Group has a \$50,000 revolving line of credit related to its letters-of-credit program toward which a bank commitment of \$50,000 extends to December 28, 2011. As of June 30, 2011, \$37,162 of letters of credit had been extended under the revolving line of credit, although there were no borrowings under any of the letters of credit.

The outstanding principal amount of all hospital revenue bonds is \$4,100,240, which represents 38% of the combined unrestricted net assets of the Senior and Subordinate Credit Group members at June 30, 2011.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **5. Long-Term Debt (continued)**

Guarantees are contingent commitments issued by the Senior and Subordinate Credit Groups, generally to guarantee the performance of a sponsored organization or an affiliate to a third party in borrowing arrangements such as commercial paper issuances, bond financing, and similar transactions. The term of the guarantee is equal to the term of the related debt, which can be as short as 30 days or as long as 29 years. The maximum potential amount of future payments the Senior and Subordinate Credit Groups could be required to make under their guarantees and other commitments at June 30, 2011, is approximately \$150,000.

As discussed in the Organization and Mission note to the consolidated financial statements, St. Vincent Health completed the purchase of The Care Group, LLC (TCG) and related entities, effective July 1, 2010, which resulted in the issuance of \$91,711 of promissory notes with TCG and related entities, of which \$82,544 was paid in 2011. The remaining \$9,167 is payable in July 2012. The promissory notes bear interest at 4.25% and are secured by certain fixed assets of the Corporation.

During the years ended June 30, 2011 and 2010, interest paid was approximately \$15,502 and \$11,365, respectively.

#### **6. Pension Plans**

The Corporation participates in the Ascension Health Pension Plan, the Ascension Health Defined Contribution Plan, and the St. Vincent Heart Center of Indiana Retirement Plan. Details of these plans are as follows.

##### **Ascension Health Pension Plan**

The Corporation participates in the Ascension Health Pension Plan (the Ascension Plan), which is a noncontributory, defined-benefit pension plan sponsored by Ascension Health, which covers all eligible employees of certain Ascension Health entities. Benefits are based on each participant's years of service and compensation. The Ascension Plan's assets are invested in the Ascension Health Master Pension Trust (the Trust), a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Ascension Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. Net periodic pension cost of \$46,929 in 2011 and \$30,590 in 2010 was charged to the Corporation.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **6. Pension Plans (continued)**

The service cost component of net periodic pension cost charged to the Corporation is actuarially determined, while all other components are allocated based on the Corporation's pro rata share of Ascension Health's overall projected benefit obligation.

The assets of the Ascension Plan are available to pay the benefits of eligible employees of all participating entities. In the event participating entities are unable to fulfill their financial obligations under the Ascension Plan, the other participating entities are obligated to do so. As of June 30, 2011, the Ascension Plan had a net unfunded liability of \$226,238. The Corporation's allocated share of the Ascension Plan's net unfunded liability reflected in the accompanying consolidated balance sheets at June 30, 2011 and 2010, was \$78,365 and \$121,073, respectively. As a result of updating the funded status of the Plan, the Corporation's allocated share of the Plan's net funded liability was reduced by \$68,149 in 2011. Ascension Health transferred an additional pension liability of \$1,867 to the Corporation in 2010. These transfers are included in transfers from (to) sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets.

As of June 30, 2011 and 2010, the fair value of the Ascension Plan's assets available for benefits was \$3,616,141 and \$3,089,076, respectively. As discussed in the Fair Value Measurements note, the Corporation, as well as Ascension Health, follows a three-level hierarchy to categorize assets and liabilities measured at fair value. In accordance with this hierarchy, as of June 30, 2011, 27%, 45%, and 28% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3 investments, respectively. With respect to the Ascension Plan's liabilities that are measured at fair value on a recurring basis, 0%, 17%, and 83% were categorized as Level 1, Level 2, and Level 3 investments, respectively, as of June 30, 2011. Additionally, as of June 30, 2010, 29%, 42%, and 29% of the Ascension Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3 investments, respectively. With respect to the Ascension Plan's liabilities that are measured at fair value on a recurring basis, 0%, 13%, and 87% were categorized as Level 1, Level 2, and Level 3 investments, respectively, as of June 30, 2010.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **6. Pension Plans (continued)**

##### **Ascension Health Defined Contribution Plan**

The Corporation participates in the Ascension Health Defined Contribution Plan (the Defined Contribution Plan), a contributory and noncontributory, defined-contribution plan sponsored by Ascension Health which covers all eligible associates. There are three primary types of contributions to the Defined Contribution Plan: employer automatic contributions, employee contributions, and employer matching contributions. Benefits for employer automatic contributions are determined as a percentage of a participant's salary. These benefits are funded annually, and participants become fully vested over a period of time. Benefits for employer matching contributions are determined as a percentage of an eligible participant's contributions each payroll period. These benefits are funded each payroll period, and participants become fully vested in all employer contributions immediately. Defined-contribution expense, representing both employer automatic contributions and employer matching contributions, was \$13,114 and \$10,279 for the years ended June 30, 2011 and 2010, respectively.

##### **St. Vincent Heart Center of Indiana Retirement Plan**

SVHCI has established a defined-contribution retirement plan which covers substantially all employees. SVHCI makes a nonelective contribution which is based on the participating employee's compensation. Employees are immediately vested in this portion of the plan. In addition, SVHCI matches the participating employee's elective 401(k) contributions up to 3% of the employee's compensation. Vesting in SVHCI matching contributions is based on years of service, and such contributions are 100% vested to the employee after five years of service. Defined-contribution expense, representing both employer automatic contributions and employer matching contributions, was \$1,409 and \$1,473 for the years ended June 30, 2011 and 2010, respectively.

#### **7. Self-Insurance Programs**

The Corporation participates in pooled risk programs to insure professional and general liability risks and workers' compensation risks to the extent of certain self-insured limits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Actuarially determined amounts, discounted at 6%, are contributed to the trusts and the captive insurance company to provide for the estimated cost of claims. The loss reserves recorded for estimated self-insured professional, general liability, and workers' compensation claims include estimates of the ultimate costs for both reported claims and claims incurred but not reported and are discounted at 6% in 2011 and 2010.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **7. Self-Insurance Programs (continued)**

In the event that sufficient funds are not available from the self-insurance programs, each participating entity may be assessed its pro rata share of the deficiency. If contributions exceed the losses paid, the excess may be returned to participating entities.

#### **Professional and General Liability Programs**

The Corporation participates in Ascension Health's professional and general liability self-insured program. Professional liability coverage is provided on an occurrence basis through a wholly owned onshore trust with a self-insured retention of \$250 per occurrence and up to \$7,500 in aggregate in compliance with participation in the Patient Compensation Fund. The Patient Compensation Fund applies to claims in excess of the primary self-insured limit. General liability coverage is provided on a claims-made basis through a wholly owned onshore trust and offshore captive insurance company, Ascension Health Insurance, Ltd. (AHIL), with a self-insured retention of \$10,000 per occurrence with no aggregate. Excess coverage is provided through AHIL with limits up to \$185,000. AHIL also retains a 20% quota share of the first \$25,000 of umbrella excess. The remaining excess coverage is reinsured by commercial carriers. The Corporation has a deductible of up to \$100 per claim for both professional and general liability claims depending on the size of the hospital. One entity obtains professional liability coverage through a commercial policy on a claims-made basis with limits up to \$250 per occurrence and \$750 in aggregate in compliance with participation in the Patient Compensation Fund. The Patient Compensation Fund applies to claims in excess of the primary limit.

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is professional and general liability expense of \$5,345 and \$8,033 for the years ended June 30, 2011 and 2010, respectively. Included in self-insurance liabilities on the accompanying consolidated balance sheets are professional and general liability loss reserves of approximately \$3,217 and \$3,259 at June 30, 2011 and 2010, respectively.

#### **Workers' Compensation**

The Corporation participates in Ascension Health's workers' compensation program, which provides occurrence coverage through a grantor trust. The trust provides coverage up to \$1,000 per occurrence with no aggregate. The trust provides a mechanism for funding the workers' compensation obligations of its members. Excess insurance against catastrophic loss is obtained through commercial insurers. Premium payments made to the trust are expensed and reflect both claims reported and claims incurred but not reported.

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**7. Self-Insurance Programs (continued)**

Included in operating expenses in the accompanying consolidated statements of operations and changes in net assets is workers' compensation expense of \$5,810 and \$5,182 for the years ended June 30, 2011 and 2010, respectively.

**Medical and Dental Claims**

The Corporation is self-insured for medical and dental claims. The Corporation estimates its liability for covered medical and dental claims, including claims incurred but not reported, based upon historical costs incurred and payment processing experience. At June 30, 2011 and 2010, the liability for such covered medical and dental claims was \$7,630 and \$5,870, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets.

**8. Lease Commitments**

Future minimum payments under noncancelable operating leases with remaining terms of one year or more are as follows:

Year ending June 30:	
2012	\$ 26,322
2013	26,846
2014	23,075
2015	19,147
2016	15,752
Thereafter	30,037
Total	<u>\$ 141,179</u>

The Corporation has subleased certain of its space under the operating leases reported above. Total future minimum rents to be received under noncancellable subleases with remaining terms of one year or more are \$6,683.

In addition, the Corporation is a lessor under certain operating lease agreements, primarily ground leases related to third-party owned medical office buildings on land owned by the Corporation. The Corporation also leases space to others in some buildings it owns.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 8. Lease Commitments (continued)

Future minimum rental receipts under all noncancelable operating leases with terms of one year or more are as follows:

Year ending June 30:	
2012	\$ 909
2013	916
2014	917
2015	917
2016	917
Thereafter	32,143
Total	<u>\$ 36,719</u>

Rental expense under operating leases amounted to \$53,028 and \$49,279 in 2011 and 2010, respectively.

In May 2003, the Corporation sold various outpatient and professional medical office buildings (MOBs) to a real estate investment trust (REIT) and contemporaneously leased back certain space in those buildings to support ongoing ministry operations for a period of 12 years with leases extending through 2015. These space leases are being accounted for as operating leases based on their terms, and future minimum lease payments under these leases are included in the amounts reported above. The building sales were accounted for as sale-lease transactions, and as such, certain gains on the sales were deferred. As of June 30, 2011 and 2010, net deferred gains of \$1,598 and \$2,146, respectively, were included in other noncurrent liabilities in the accompanying consolidated balance sheets. These gains are being recognized as operating income over the related leaseback terms. In connection with that sale, the Corporation entered into a long-term ground lease for the property underlying the buildings whereby the REIT is able to take control of the buildings for 50 years with one 25-year renewal at the option of the REIT.

#### 9. Related-Party Transactions

The Corporation utilized various centralized programs and overhead services of Ascension Health or its other sponsored organizations, including risk management, retirement services, treasury, debt management, executive management support, administrative services, and information technology services. The charges allocated to the Corporation for these services represent both allocations of common costs and specifically identified expenses that are incurred

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Related-Party Transactions (continued)

by Ascension Health on behalf of the Corporation. Allocations are based on relevant metrics such as the Corporation's pro rata share of revenues, certain costs, debt, or investments to the consolidated totals of Ascension Health.

The amounts charged to the Corporation for these services may not necessarily result in the net costs that would be incurred by the Corporation on a stand-alone basis. The charges allocated to the Corporation were approximately \$101,208 and \$91,325 for the years ended June 30, 2011 and 2010, respectively.

In addition to the charges discussed above, the Corporation made payments to Ascension Health of \$35,505 and \$18,069 for the years ended June 30, 2011 and 2010, respectively, representing the Corporation's share of costs to fund an Ascension Health system-wide information technology and process standardization project that is expected to continue through December 2014. Also, during the years ending June 30, 2011 and 2010, the Corporation transferred cash and investments of \$25,487 and \$22,058, respectively, in support of Ascension Health's strategic initiatives and Sister services. These payments are included in transfers to sponsor and other affiliates, net, in the accompanying consolidated statements of operations and changes in net assets.

The Corporation purchased \$28,581 of laboratory services in 2011 (\$23,029 in 2010) from Mid America Clinical Laboratories, LLC (MACL). SVHHS is a 25% owner of MACL.

SVHHS purchased \$6,172 in 2010 of blood factor products from Chartwell Midwest Indiana, LLC (Chartwell). SVHHS was a 50% owner of Chartwell. Chartwell ceased operations as of June 30, 2010.

The Corporation paid \$802 and \$734 to Suburban Health Organization (SHO) in 2011 and 2010, respectively, for items such as physician recruitment dues, third-party administration (TPA) services, and network development. SHO processed \$34,150 and \$39,576 in claim payments for the Corporation in 2011 and 2010, respectively. SVH is a Class D stockholder of SHO.

The Corporation paid \$708 and \$835 to NeuroOncology Equipment, LLC (Novalis) in 2011 and 2010, respectively, for rental of equipment. SVHHS is a 50% owner of Novalis.

The Corporation paid \$1,635 and \$2,305 to United Hospital Services, LLC (UHS) in 2011 and 2010, respectively, for laundry services. SVHHS is a 16.7% owner of UHS.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 9. Related-Party Transactions (continued)

The Corporation paid \$615 to Breast MRI Leasing Company, LLC (Breast MRI) in both 2011 and 2010 for rental of equipment. SVHHS is a 50% owner of Breast MRI.

The Corporation paid \$3,425 to Indiana Heart Institute, LLC (IHI) in 2010 for heart base and coding services. SVH was a 33.3% owner of IHI. See the Organization and Mission note.

Care Group Cardiovascular Management, LLC (CGC) was formed to provide management services to the cardiovascular programs at SVHCI, SVHHS, St. Vincent Carmel, and Lafayette Heart Program Holdings, LLC (Lafayette). CIHSCS is a 5% member entity of CGC and a 49% owner of Lafayette. The Corporation paid \$8,572 in management fees to CGC in 2010. See the Organization and Mission Acquisitions note.

The Corporation paid \$3,000 and \$250 to Orthopaedic Consulting Services, LLC (OCS) in 2011 and 2010, respectively, for management fees. SVHHS is a 5% owner of OCS.

The Corporation participates in a joint venture arrangement for the operation of the Rehabilitation Hospital of Indiana, Inc. (RHI), a free-standing, not-for-profit, comprehensive rehabilitation facility. The Corporation guarantees 50% of the outstanding bonds and line-of-credit amounts (\$6,400 at June 30, 2011), using a supporting letter of credit for payment of principal and interest on certain debt issued on behalf of RHI. The guarantee extends through the term of the debt and expires on November 1, 2020. A long-term liability of \$212 has been recorded in the accompanying consolidated balance sheets at both June 30, 2011 and 2010, representing the fair value of this guarantee determined using a discounted cash flow analysis. The Corporation also provided RHI with a working capital loan of \$1,500 in June 2010.

The Corporation is a 34.5% owner of Advantage Health Solutions, Inc. (Advantage). SVHHS is a 50% guarantor on the minimum statutory net worth requirement with the Indiana Department of Insurance. The guarantee amount approximates \$4,500 at June 30, 2011; however, because Advantage is well in excess of the minimum statutory net worth requirements, the Corporation estimates the fair value of this guarantee to be zero.

As part of the formation of the Meridian Heights Associates, LLC joint venture with St. Vincent Carmel, St. Vincent Carmel pledged 9.51 acres of land as collateral for the financing of the joint venture. St. Vincent Carmel is a 50% owner of the Meridian Heights Associates, LLC joint venture.

## St. Vincent Health, Inc.

### Notes to the Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **9. Related-Party Transactions (continued)**

The Corporation provides professional services to some of its joint ventures. The revenue received for these services was \$33,194 and \$23,711 in 2011 and 2010, respectively, and is included in other revenue in the accompanying consolidated statements of operations and changes in net assets.

The Corporation provides professional services to another member of Ascension Health. The revenue recorded for these services was \$1,458 and \$1,207 in 2011 and 2010, respectively.

#### **10. Contingencies and Commitments**

In addition to professional liability claims, the Corporation is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on the Corporation's consolidated financial statements.

In September 2010, Ascension Health received a letter from the U.S. Department of Justice (the DOJ) in connection with its nationwide review to determine whether, in certain cases, implantable cardioverter defibrillators (ICDs) were provided to certain Medicare beneficiaries in accordance with national coverage criteria. In connection with this nationwide review, the Corporation will be reviewing applicable medical records for response to the DOJ. The DOJ's investigation spans a time frame beginning in 2003 and extending through the present time. At June 30, 2011 and through September 13, 2011, the review remains in its early stages. As such, no estimates of liability have been or can be reached relative to the impact this investigation could have on the Corporation. Through September 13, 2011, the DOJ has not asserted any claims against the Corporation. Ascension Health and the Corporation continue to fully cooperate with the DOJ in its investigation.

The Corporation enters into agreements with non-employed physicians that include minimum revenue guarantees. These guarantees provide financial incentives to induce physicians to relocate their practices to a health ministry that serves an area with a demonstrated community need. Guarantees are designed to assist a physician in establishing a viable medical practice in a community in order to promote the health of the community. The Corporation agrees to make payments to the physician at the end of specific time periods if the gross receipts generated by the practice do not equal or exceed a specific dollar amount. The Corporation has also entered into agreements with physician groups to provide emergency room and anesthesia coverage in areas with demonstrated community need. The Corporation guarantees to cover the costs of

St. Vincent Health, Inc.

Notes to the Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**10. Contingencies and Commitments (continued)**

providing coverage if there are not sufficient patient billings that exceed the cost of providing the coverage. The carrying amounts of the liability for the Corporation's obligation under these guarantees were \$3,208 and \$709 at June 30, 2011 and 2010, respectively, and are included in current and noncurrent liabilities in the accompanying consolidated balance sheets.

The maximum amount of future payments that the Corporation could be required to make under these guarantees is \$12,103. However, the Corporation is entitled to proceeds of receivables collected to offset guarantee amounts paid, which reduces the total maximum guarantee amount.

The Corporation has certain supply commitments totaling \$5,232 at June 30, 2011.

**11. Subsequent Events**

The Corporation purchased CorVasc MD's, PC (CorVasc), a cardiovascular physician group, effective July 1, 2011, for a total purchase price of \$2,907. CorVasc will be operated under the Corporation's subsidiary SVMG. At June 30, 2011, a deposit on the transaction in the amount of \$2,720 was included in other current assets in the accompanying consolidated balance sheets.

## Other Financial Information

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2011

(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 119,068	\$ —	\$ 4,281	\$ —	\$ 7,500	\$ 9,232	\$ 842	\$ 8,957
Short-term investments	37,093	—	—	—	4,538	—	—	29,793
Accounts receivable, less allowances for uncollectible accounts of \$78,503	248,265	—	—	—	13,663	24,057	—	13,966
Assets limited as to use	2,200	—	—	—	—	427	—	—
Estimated third-party payor settlements	6,022	—	—	—	660	383	—	42
Inventories	20,881	—	—	—	1,374	3,632	—	911
Other	31,393	(50,463)	46,066	—	978	2,442	—	1,632
Total current assets	464,922	(50,463)	50,347	—	28,713	40,173	842	55,301
Investments, including Board-designated	1,748,905	—	2,177	—	111,733	56,633	45,294	19
Property and equipment:								
Land and improvements	59,481	—	1,084	—	3,763	7,723	7,139	—
Building and equipment	1,407,510	—	113,875	—	139,200	128,941	—	65,411
Construction in progress	14,600	—	1,919	—	1,564	1,149	—	169
Less accumulated depreciation	986,472	—	98,028	—	108,271	101,453	1,490	39,379
Total property and equipment, net	495,119	—	18,850	—	36,256	36,360	5,649	26,201
Other assets:								
Goodwill and other intangible assets	182,121	—	57,775	—	—	—	46,756	—
Investment in unconsolidated entities	75,854	—	9,093	—	362	—	7,800	—
Notes and other receivables	13,154	(42,735)	45,906	—	128	131	—	—
Investments in land	4,263	—	1,716	535	—	—	—	—
Other	13,842	—	9,156	—	112	499	—	—
Total other assets	289,234	(42,735)	123,646	535	602	630	54,556	—
Total assets	\$ 2,998,180	\$ (93,198)	\$ 195,020	\$ 535	\$ 177,304	\$ 133,796	\$ 106,341	\$ 81,521

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2011

(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 36,355	\$ 9,020	\$ 2,479	\$ 5,291	\$ 1,067	\$ 2,156	\$ 2,798	\$ 2,100
Short-term investments	–	–	439	–	20	–	–	142
Accounts receivable, less allowances for uncollectible accounts of \$78,503	135,176	5,573	2,149	17,626	2,893	2,697	2,237	2,679
Assets limited as to use	–	–	7	–	–	–	–	–
Estimated third-party payor settlements	1,462	–	617	1	116	72	–	–
Inventories	10,495	135	165	783	310	444	–	381
Other	23,152	1,082	354	2,689	300	(61)	55	418
Total current assets	206,640	15,810	6,210	26,390	4,706	5,308	5,090	5,720
Investments, including Board-designated	842,461	–	6,197	467,384	19,400	25,922	277	28,383
Property and equipment:								
Land and improvements	30,368	19	1,003	4,376	722	320	938	206
Building and equipment	693,752	11,048	27,864	97,918	23,745	18,302	7,727	7,920
Construction in progress	4,869	2	19	4,114	8	230	–	–
Less accumulated depreciation	493,198	8,196	16,399	58,579	10,408	11,845	5,657	5,477
Total property and equipment, net	235,791	2,873	12,487	47,829	14,067	7,007	3,008	2,649
Other assets:								
Goodwill and other intangible assets	35,663	–	18	72	–	–	–	–
Investment in unconsolidated entities	54,193	–	–	4,406	–	–	–	–
Notes and other receivables	8,843	497	32	–	–	–	–	11
Investments in land	1,760	–	–	–	–	–	–	–
Other	346	27	–	–	44	544	–	–
Total other assets	100,805	524	50	4,478	44	544	–	11
Total assets	\$ 1,385,697	\$ 19,207	\$ 24,944	\$ 546,081	\$ 38,217	\$ 38,781	\$ 8,375	\$ 36,763

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2011

(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 3,717	\$ 2,563	\$ 3,697	\$ 2,265	\$ 3,523	\$ 8,076	\$ 2,848	\$ 301
Short-term investments	–	–	–	–	–	–	–	2,161
Accounts receivable, less allowances for uncollectible accounts of \$78,503	2,495	1,985	2,104	3,174	7,739	–	8,052	–
Assets limited as to use	–	–	–	–	–	–	–	1,766
Estimated third-party payor settlements	574	1	192	1,289	–	–	613	–
Inventories	229	178	289	865	224	–	466	–
Other	(70)	77	760	206	146	1,415	(34)	249
Total current assets	6,945	4,804	7,042	7,799	11,632	9,491	11,945	4,477
Investments, including Board-designated	23,641	2,057	52	32	–	–	51,816	65,427
Property and equipment:								
Land and improvements	280	529	–	160	–	–	851	–
Building and equipment	11,903	17,524	336	9,094	9,808	68	23,074	–
Construction in progress	8	47	473	–	–	–	29	–
Less accumulated depreciation	6,762	8,303	63	1,381	3,471	37	8,075	–
Total property and equipment, net	5,429	9,797	746	7,873	6,337	31	15,879	–
Other assets:								
Goodwill and other intangible assets	–	–	1,498	18	20,864	19,457	–	–
Investment in unconsolidated entities	–	–	–	–	–	–	–	–
Notes and other receivables	–	–	36	–	305	–	–	–
Investments in land	252	–	–	–	–	–	–	–
Other	25	937	2,152	–	–	–	–	–
Total other assets	277	937	3,686	18	21,169	19,457	–	–
Total assets	\$ 36,292	\$ 17,595	\$ 11,526	\$ 15,722	\$ 39,138	\$ 28,979	\$ 79,640	\$ 69,904

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2011

(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC
<b>Liabilities and net assets</b>								
Current liabilities:								
Current portion of long-term debt	\$ 2,419	\$ (3,561)	\$ 330	\$ –	\$ 123	\$ 117	\$ –	\$ 3,561
Accounts payable and accrued liabilities	239,995	(9)	20,860	–	11,493	15,642	46	10,045
Estimated third-party payor settlements	28,136	–	–	–	1,376	2,154	–	1,844
Self-insurance liabilities	3,217	–	–	–	1	82	–	–
Other	14,279	(50,455)	2,467	–	3,051	2,937	8,964	1,042
Total current liabilities	288,046	(54,025)	23,657	–	16,044	20,932	9,010	16,492
Noncurrent liabilities:								
Long-term debt	343,044	(39,173)	45,591	–	16,932	16,091	696	39,173
Pension and other postretirement liabilities	78,365	–	74,222	–	–	–	–	–
Other	38,901	–	11,442	–	1,650	1,183	7,510	–
Total noncurrent liabilities	460,310	(39,173)	131,255	–	18,582	17,274	8,206	39,173
Total liabilities	748,356	(93,198)	154,912	–	34,626	38,206	17,216	55,665
Net assets:								
Unrestricted	2,183,135	–	40,106	535	141,149	90,075	75,438	32,828
Temporarily restricted	40,468	–	2	–	1,136	5,007	–	19
Permanently restricted	16,449	–	–	–	393	508	–	–
Total net assets, excluding noncontrolling interest	2,240,052	–	40,108	535	142,678	95,590	75,438	32,847
Noncontrolling interest	9,772	–	–	–	–	–	13,687	(6,991)
Total net assets	2,249,824	–	40,108	535	142,678	95,590	89,125	25,856
Total liabilities and net assets	\$ 2,998,180	\$ (93,198)	\$ 195,020	\$ 535	\$ 177,304	\$ 133,796	\$ 106,341	\$ 81,521

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2011

(Dollars in Thousands)

	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.
<b>Liabilities and net assets</b>								
Current liabilities:								
Current portion of long-term debt	\$ 1,256	\$ 2	\$ 85	\$ 156	\$ 106	\$ 58	\$ 13	\$ 4
Accounts payable and accrued liabilities	107,445	9,470	1,882	14,471	3,535	2,060	1,536	3,813
Estimated third-party payor settlements	14,479	—	531	873	1,250	502	—	1,185
Self-insurance liabilities	2,922	—	—	207	—	4	—	—
Other	3,102	26,128	382	5,520	(281)	(351)	705	107
Total current liabilities	129,204	35,600	2,880	21,227	4,610	2,273	2,254	5,109
Noncurrent liabilities:								
Long-term debt	176,706	293	11,773	21,510	14,632	8,061	1,743	504
Pension and other postretirement liabilities	—	—	25	—	267	131	762	397
Other	13,771	27	29	467	44	544	—	—
Total noncurrent liabilities	190,477	320	11,827	21,977	14,943	8,736	2,505	901
Total liabilities	319,681	35,920	14,707	43,204	19,553	11,009	4,759	6,010
Net assets:								
Unrestricted	1,062,709	(16,713)	10,086	502,520	15,895	26,341	3,339	30,645
Temporarily restricted	3,297	—	151	104	362	1,431	277	108
Permanently restricted	10	—	—	—	34	—	—	—
Total net assets, excluding noncontrolling interest	1,066,016	(16,713)	10,237	502,624	16,291	27,772	3,616	30,753
Noncontrolling interest	—	—	—	253	2,373	—	—	—
Total net assets	1,066,016	(16,713)	10,237	502,877	18,664	27,772	3,616	30,753
Total liabilities and net assets	\$ 1,385,697	\$ 19,207	\$ 24,944	\$ 546,081	\$ 38,217	\$ 38,781	\$ 8,375	\$ 36,763

St. Vincent Health, Inc.

Consolidating Balance Sheet

June 30, 2011  
(Dollars in Thousands)

	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
<b>Liabilities and net assets</b>								
Current liabilities:								
Current portion of long-term debt	\$ 30	\$ 79	\$ –	\$ 57	\$ –	\$ –	\$ 3	\$ –
Accounts payable and accrued liabilities	1,691	1,355	1,815	1,901	25,370	889	4,664	21
Estimated third-party payor settlements	498	981	377	313	–	–	1,773	–
Self-insurance liabilities	–	–	–	–	1	–	–	–
Other	734	524	368	6,514	332	802	1,687	–
Total current liabilities	2,953	2,939	2,560	8,785	25,703	1,691	8,127	21
Noncurrent liabilities:								
Long-term debt	4,185	10,853	–	7,878	3,085	2,075	436	–
Pension and other postretirement liabilities	9	289	–	–	2,208	55	–	–
Other	26	937	1,167	–	–	–	–	104
Total noncurrent liabilities	4,220	12,079	1,167	7,878	5,293	2,130	436	104
Total liabilities	7,173	15,018	3,727	16,663	30,996	3,821	8,563	125
Net assets:								
Unrestricted	28,750	1,934	7,747	(973)	8,142	25,158	71,038	26,386
Temporarily restricted	369	193	52	32	–	–	39	27,889
Permanently restricted	–	–	–	–	–	–	–	15,504
Total net assets, excluding noncontrolling interest	29,119	2,127	7,799	(941)	8,142	25,158	71,077	69,779
Noncontrolling interest	–	450	–	–	–	–	–	–
Total net assets	29,119	2,577	7,799	(941)	8,142	25,158	71,077	69,779
Total liabilities and net assets	\$ 36,292	\$ 17,595	\$ 11,526	\$ 15,722	\$ 39,138	\$ 28,979	\$ 79,640	\$ 69,904

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC	St. Vincent Hospital and Health Care Center, Inc.	St. Vincent Physician Network, LLC
Operating revenue:									
Net patient service revenue	\$ 2,078,088	\$ (139)	\$ –	\$ 122,814	\$ 188,664	\$ –	\$ 130,786	\$ 1,056,686	\$ 68,435
Other revenue	87,310	(13,483)	3,742	1,849	13,196	203	761	49,640	777
Income (loss) from unconsolidated entities, net	16,898	–	369	–	(47)	(68)	–	11,749	–
Net assets released from restrictions for operations	3,355	–	13	66	275	–	10	2,233	–
Total operating revenue	2,185,651	(13,622)	4,124	124,729	202,088	135	131,557	1,120,308	69,212
Operating expenses:									
Salaries and wages	817,374	–	8,374	44,276	71,115	1,516	28,595	347,055	60,307
Employee benefits	227,800	(291)	6,817	13,250	22,293	392	7,675	98,062	13,903
Purchased services	172,384	(3,903)	83,224	5,128	4,106	–	9,958	49,026	1,186
Professional fees	100,550	(8,916)	11,659	3,508	20,113	12	7,121	48,147	2,704
Supplies	284,134	–	1,676	15,276	31,665	–	28,896	150,845	6,553
Insurance	8,447	–	–	595	245	–	166	4,195	1,136
Bad debts	142,051	–	1,711	10,997	17,655	–	4,682	56,478	4,043
Interest	15,502	–	(594)	678	645	750	2,427	7,481	12
Depreciation and amortization	86,380	–	17,882	5,163	5,235	104	4,591	34,014	730
Other	185,278	(512)	(132,587)	13,961	25,112	4,909	15,147	189,881	14,048
Total operating expenses before impairment expense	2,039,900	(13,622)	(1,838)	112,832	198,184	7,683	109,258	985,184	104,622
Income (loss) from operations before impairment expense	145,751	–	5,962	11,897	3,904	(7,548)	22,299	135,124	(35,410)
Impairment expense	2,286	–	2,286	–	–	–	–	–	–
Income (loss) from operations	143,465	–	3,676	11,897	3,904	(7,548)	22,299	135,124	(35,410)
Nonoperating gains (losses):									
Investment return	262,149	–	52	17,304	9,061	5,609	630	128,777	108
(Loss) income from unconsolidated entities	(191)	–	226	(7)	–	–	–	43	–
Other	(13,148)	–	(9,212)	(41)	23	–	–	(1,870)	–
Total nonoperating gains (losses), net	248,810	–	(8,934)	17,256	9,084	5,609	630	126,950	108
Excess (deficit) of revenues and gains over expenses and losses	\$ 392,275	\$ –	\$ (5,258)	\$ 29,153	\$ 12,988	\$ (1,939)	\$ 22,929	\$ 262,074	\$ (35,302)

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

(Dollars in Thousands)

	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.	St. Vincent Salem Hospital, Inc.
Operating revenue:									
Net patient service revenue	\$ 25,320	\$ 142,262	\$ 33,282	\$ 24,542	\$ 20,235	\$ 32,313	\$ 24,945	\$ 20,496	\$ 22,384
Other revenue	354	10,460	354	255	19	514	632	234	286
Income (loss) from unconsolidated entities, net	—	4,895	—	—	—	—	—	—	—
Net assets released from restrictions for operations	42	102	134	42	49	22	9	128	2
Total operating revenue	25,716	157,719	33,770	24,839	20,303	32,849	25,586	20,858	22,672
Operating expenses:									
Salaries and wages	10,646	43,412	10,868	7,101	12,991	8,530	9,844	6,277	7,539
Employee benefits	3,635	14,186	3,373	2,252	5,410	2,873	2,916	2,185	2,151
Purchased services	1,309	4,836	1,011	1,759	402	2,516	1,004	2,380	2,180
Professional fees	1,000	3,173	2,095	913	130	1,139	764	1,755	413
Supplies	2,659	20,044	2,837	2,497	384	2,152	1,313	991	1,757
Insurance	46	327	21	44	71	36	128	94	119
Bad debts	3,221	6,679	4,604	4,280	—	5,384	3,973	4,757	4,491
Interest	471	863	587	323	70	20	168	435	—
Depreciation and amortization	923	4,891	1,077	548	374	495	367	563	460
Other	2,796	16,033	3,123	3,045	1,957	4,395	2,859	2,771	2,124
Total operating expenses before impairment expense	26,706	114,444	29,596	22,762	21,789	27,540	23,336	22,208	21,234
Income (loss) from operations before impairment expense	(990)	43,275	4,174	2,077	(1,486)	5,309	2,250	(1,350)	1,438
Impairment expense	—	—	—	—	—	—	—	—	—
Income (loss) from operations	(990)	43,275	4,174	2,077	(1,486)	5,309	2,250	(1,350)	1,438
Nonoperating gains (losses):									
Investment return	1,077	70,060	1,947	3,501	36	4,069	3,173	331	29
(Loss) income from unconsolidated entities	—	(453)	—	—	—	—	—	—	—
Other	(148)	(5)	21	(2)	3	1	6	16	—
Total nonoperating gains (losses), net	929	69,602	1,968	3,499	39	4,070	3,179	347	29
Excess (deficit) of revenues and gains over expenses and losses	\$ (61)	\$ 112,877	\$ 6,142	\$ 5,576	\$ (1,447)	\$ 9,379	\$ 5,429	\$ (1,003)	\$ 1,467

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

(Dollars in Thousands)

	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Operating revenue:					
Net patient service revenue	\$ 29,020	\$ 76,701	\$ –	\$ 59,342	\$ –
Other revenue	700	2,044	16,091	165	(1,483)
Income (loss) from unconsolidated entities, net	–	–	–	–	–
Net assets released from restrictions for operations	–	48	–	40	140
Total operating revenue	29,720	78,793	16,091	59,547	(1,343)
Operating expenses:					
Salaries and wages	12,875	93,768	4,879	27,406	–
Employee benefits	4,195	14,543	1,052	6,928	–
Purchased services	1,387	1,244	–	3,654	(23)
Professional fees	1,203	1,604	1,280	709	24
Supplies	4,396	3,601	30	6,562	–
Insurance	183	944	4	93	–
Bad debts	2,208	7,017	–	(129)	–
Interest	316	498	335	17	–
Depreciation and amortization	1,127	3,611	2,578	1,647	–
Other	2,825	8,094	994	6,082	(1,779)
Total operating expenses before impairment expense	30,715	134,924	11,152	52,969	(1,778)
Income (loss) from operations before impairment expense	(995)	(56,131)	4,939	6,578	435
Impairment expense	–	–	–	–	–
Income (loss) from operations	(995)	(56,131)	4,939	6,578	435
Nonoperating gains (losses):					
Investment return	12	27	19	7,024	9,303
(Loss) income from unconsolidated entities	–	–	–	–	–
Other	10	–	–	1	(1,951)
Total nonoperating gains (losses), net	22	27	19	7,025	7,352
Excess (deficit) of revenues and gains over expenses and losses	\$ (973)	\$ (56,104)	\$ 4,958	\$ 13,603	\$ 7,787

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011  
(Dollars in Thousands)

	Consolidated St. Vincent Health	Reclassifications and Eliminations	St. Vincent Health, Inc.	St. Vincent Medical Center Northeast, Inc.	St. Joseph Hospital & Health Center, Inc.	Saint John's Health System	Cardiac Services and Newco	St. Vincent Heart Center of Indiana, LLC	St. Vincent Hospital and Health Care Center, Inc.
Unrestricted net assets, controlling interest:									
Excess (deficit) of revenues and gains over expenses and losses	\$ 385,374	\$ —	\$ (5,258)	\$ —	\$ 29,153	\$ 12,996	\$ (8,378)	\$ 22,929	\$ 262,074
Pension and other postretirement liability adjustments	68,149	—	62,817	—	—	—	—	—	—
Transfers (to) from sponsor and other affiliates, net	(60,992)	—	(109,102)	—	99	(2,355)	18,009	(18,001)	(48,353)
Net assets released from restrictions for property acquisitions	2,734	—	—	—	346	496	—	—	1,420
Other	(4,953)	—	(16)	—	(4)	—	(5,826)	(8)	(3,493)
Increase (decrease) in unrestricted net assets, controlling interest	390,312	—	(51,559)	—	29,594	11,137	3,805	4,920	211,648
Unrestricted net assets, noncontrolling interest									
Excess (deficit) of revenues and gains over expenses and losses	6,901	—	—	—	—	(8)	6,439	—	—
Purchase of units from noncontrolling members	(1,139)	—	—	—	—	—	(1,139)	—	—
Distributions of capital	(7,463)	—	—	—	—	(31)	—	(6,991)	—
Increase (decrease) in unrestricted net assets, noncontrolling interest	(1,701)	—	—	—	—	(39)	5,300	(6,991)	—
Temporarily restricted net assets:									
Contributions and grants	11,356	—	—	—	205	1,272	—	15	768
Net change in unrealized gains/losses on investments	2,699	—	—	—	—	326	—	—	183
Investment return	1,731	—	—	—	76	198	—	—	221
Net assets released from restrictions	(6,089)	—	(13)	—	(412)	(771)	—	(10)	(3,653)
Other	(855)	—	(35)	—	4	—	—	8	3,302
Increase (decrease) in temporarily restricted net assets	8,842	—	(48)	—	(127)	1,025	—	13	821
Permanently restricted net assets:									
Contributions	98	—	—	—	1	—	—	—	—
Net change in unrealized gains/losses on investments	315	—	—	—	—	—	—	—	—
Investment return	87	—	—	—	—	5	—	—	—
Other	(6)	—	—	—	—	—	—	—	—
Increase (decrease) in permanently restricted net assets	494	—	—	—	1	5	—	—	—
Increase (decrease) in net assets	397,947	—	(51,607)	—	29,468	12,128	9,105	(2,058)	212,469
Net assets, beginning of the year	1,851,877	—	91,713	535	113,208	83,464	80,020	27,914	853,547
Net assets, end of the year	\$ 2,249,824	\$ —	\$ 40,106	\$ 535	\$ 142,676	\$ 95,592	\$ 89,125	\$ 25,856	\$ 1,066,016

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

(Dollars in Thousands)

	St. Vincent Physician Network, LLC	St. Vincent Mercy Hospital	St. Vincent Carmel Hospital, Inc.	St. Vincent Randolph Hospital, Inc.	St. Vincent Clay Hospital, Inc.	St. Vincent New Hope, Inc.	St. Vincent Frankfort Hospital, Inc.	St. Vincent Williamsport Hospital, Inc.	St. Vincent Jennings Hospital, Inc.
Unrestricted net assets, controlling interest:									
Excess (deficit) of revenues and gains over expenses and losses	\$ (35,302)	\$ (61)	\$ 112,393	\$ 6,156	\$ 5,576	\$ (1,447)	\$ 9,379	\$ 5,429	\$ (1,003)
Pension and other postretirement liability adjustments	—	1,016	—	635	410	1,379	670	815	407
Transfers (to) from sponsor and other affiliates, net	27,572	—	(12,001)	—	—	166	—	—	—
Net assets released from restrictions for property acquisitions	—	42	158	99	—	121	52	—	—
Other	—	(1)	(97)	(6)	—	(166)	—	—	—
Increase (decrease) in unrestricted net assets, controlling interest	(7,730)	996	100,453	6,884	5,986	53	10,101	6,244	(596)
Unrestricted net assets, noncontrolling interest									
Excess (deficit) of revenues and gains over expenses and losses	—	—	484	(14)	—	—	—	—	—
Purchase of units from noncontrolling members	—	—	—	—	—	—	—	—	—
Distributions of capital	—	—	(441)	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets, noncontrolling interest	—	—	43	(14)	—	—	—	—	—
Temporarily restricted net assets:									
Contributions and grants	—	152	20	224	78	—	40	22	185
Net change in unrealized gains/losses on investments	—	—	19	17	113	—	—	—	—
Investment return	—	—	20	—	85	4	—	—	—
Net assets released from restrictions	—	(84)	(260)	(233)	(42)	(170)	(74)	(9)	(128)
Other	—	(16)	64	(4)	—	166	9	—	—
Increase (decrease) in temporarily restricted net assets	—	52	(137)	4	234	—	(25)	13	57
Permanently restricted net assets:									
Contributions	—	—	—	—	—	—	—	—	—
Net change in unrealized gains/losses on investments	—	—	—	—	—	—	—	—	—
Investment return	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Increase (decrease) in permanently restricted net assets	—	—	—	—	—	—	—	—	—
Increase (decrease) in net assets	(7,730)	1,048	100,359	6,874	6,220	53	10,076	6,257	(539)
Net assets, beginning of the year	(8,985)	9,189	402,517	11,791	21,551	3,563	20,678	22,863	3,117
Net assets, end of the year	<u>\$ (16,715)</u>	<u>\$ 10,237</u>	<u>\$ 502,876</u>	<u>\$ 18,665</u>	<u>\$ 27,771</u>	<u>\$ 3,616</u>	<u>\$ 30,754</u>	<u>\$ 29,120</u>	<u>\$ 2,578</u>

St. Vincent Health, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended June 30, 2011

(Dollars in Thousands)

	St. Vincent Salem Hospital, Inc.	St. Vincent Dunn Hospital, Inc.	St. Vincent Medical Group, Inc.	Quality Healthcare Solutions, LLC (Navion)	St. Vincent Seton Specialty Hospital, Inc.	St. Vincent Hospital Foundation, Inc.
Unrestricted net assets, controlling interest:						
Excess (deficit) of revenues and gains over expenses and losses	\$ 1,467	\$ (973)	\$ (56,104)	\$ 4,958	\$ 13,603	\$ 7,787
Pension and other postretirement liability adjustments	—	—	—	—	—	—
Transfers (to) from sponsor and other affiliates, net	—	—	64,294	20,200	1,124	(2,644)
Net assets released from restrictions for property acquisitions	—	—	—	—	—	—
Other	—	—	(48)	—	—	4,712
Increase (decrease) in unrestricted net assets, controlling interest	1,467	(973)	8,142	25,158	14,727	9,855
Unrestricted net assets, noncontrolling interest						
Excess (deficit) of revenues and gains over expenses and losses	—	—	—	—	—	—
Purchase of units from noncontrolling members	—	—	—	—	—	—
Distributions of capital	—	—	—	—	—	—
Increase (decrease) in unrestricted net assets, noncontrolling interest	—	—	—	—	—	—
Temporarily restricted net assets:						
Contributions and grants	29	32	—	—	39	8,275
Net change in unrealized gains/losses on investments	—	—	—	—	—	2,041
Investment return	—	—	—	—	—	1,127
Net assets released from restrictions	(2)	—	(48)	—	(40)	(140)
Other	—	—	48	—	—	(4,401)
Increase (decrease) in temporarily restricted net assets	27	32	—	—	(1)	6,902
Permanently restricted net assets:						
Contributions	—	—	—	—	—	97
Net change in unrealized gains/losses on investments	—	—	—	—	—	315
Investment return	—	—	—	—	—	82
Other	—	—	—	—	—	(6)
Increase (decrease) in permanently restricted net assets	—	—	—	—	—	488
Increase (decrease) in net assets	1,494	(941)	8,142	25,158	14,726	17,245
Net assets, beginning of the year	6,305	—	—	—	56,351	52,536
Net assets, end of the year	\$ 7,799	\$ (941)	\$ 8,142	\$ 25,158	\$ 71,077	\$ 69,781

St. Vincent Health, Inc.

Schedule of Net Cost of Providing Care of Persons  
Living in Poverty and Community Benefit Programs  
(Dollars in Thousands)

The net cost excluding the provision for bad debt expense of providing care of persons living in poverty and community benefit programs is as follows:

	<b>Year Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Traditional charity care provided	\$ 52,740	\$ 50,719
Unpaid cost of public programs for persons living in poverty	97,100	94,798
Other programs for persons living in poverty and other vulnerable persons	4,523	4,087
Community benefit programs	36,967	29,624
Care of persons living in poverty and community benefit programs	<u>\$ 191,330</u>	<u>\$ 179,228</u>

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit [www.ey.com](http://www.ey.com)

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.

